C. F. Ghana - Volta R. Project

AIR POUCH
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FOREIGN SERVICE DESPATCH

FROM : Amembassy ACCRA

RESP. NO. 11

TO : THE DEPARTMENT OF STATE, WASHINGTON

DATE July 7, 1961

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SUBJECT: Quarterly Economic Survey - Ghana - April-June 1961

I. Status of the Economy as a Whole

The seasonal decline in consumer purchasing power which is normal at this time of the year has begun to manifest itself, though somewhat later than usual and to a somewhat milder degree due to accumulated savings derived from the record main crop of cocoa in 1960-61. Thus, the demand for most consumer-type imports is stronger at present than it was at this time last year. Prices are generally steady, but the prices for textiles and services are considerably above last year's levels due to import duty increases in the case of the former and general wage increases in the case of the latter.

Production in the agricultural, mining, industrial and service sectors appears to be rising steadily. An early spring drought damaged certain locally-consumed food crops, notably plantains, but this was more than offset by increased output of cocoa and other products. Although up-to-date figures are unavailable, there is some reason to believe that timber felling has declined recently due to uncertainties about the pricing policies of the new Timber Marketing Board and the general depletion of the more valuable hardwoods.

The Government's fiscal position is becoming increasingly stringent due to steadily rising recurrent costs and heavy recent outlays for development, notably on transportation facilities and defense. It is generally anticipated that the new budget to be presented on July 7 will feature higher import duties on luxuries, increased direct taxes, a system of forced savings, and greater austerity in recurrent public spending.

Final negotiations in Washington on the $340 million 1/ Volta River power-aluminum project are proceeding slowly but agreement is expected soon. In anticipation of eventual agreement and in order to get the project started on schedule, the Government has conditionally awarded the contract for the construction of the Akosombo dam to the Italian consortium Impresit-Girola-Lodigiani-and E. Recchi. Bids have been invited on the power station and transmission system for opening on September 5, 1961.

1/ One Ghana pound (£G) equals about $2.80

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New foreign private investment in Ghana has not been impressive in recent months. Work is, however, starting on two major foreign projects--the Italian oil refinery and the Pillsbury flour mill--and the planned aluminum smelter as a part of the Volta Project would involve an American investment of about $170 million. The Ghana Government's Industrial Development Corporation has been undergoing extensive reorganization but is expected to embark on some substantial projects soon including a sugar refinery and a cocoa bag factory.

II. Outlook for the Future

Despite the apparently small mid-crop of cocoa and indications of a reduced main crop, the long-range expectation is for large and increasing cocoa production. Even if world consumption more or less keeps pace, the prospects are that world cocoa prices will tend to average out at a lower figure than in the recent past. A low world price, combined with an unchanged internal price to the farmer, has the combined effect of (1) keeping down public revenue and thus endangering budgetary stability and (2) keeping farm income high and thus endangering balance of payments stability. The Government can be expected to do something about this problem soon. One measure, which was announced July 4, is a system of forced savings under which the cocoa farmers will use 10% of their receipts to buy 10 year Government bonds.

Another measure which is undoubtedly under active consideration is an increase in import duties on luxury items. Since most imports from the United States are in the form either of basic foodstuffs or capital goods, U.S. trade is not likely to be seriously affected, but by reducing the overall market for luxury products the new duties may make it more difficult for American firms to break into, or expand, their Ghana market for such items as frozen foods, clothing and motor vehicles.

The Government's fiscal problem may inhibit public investment in a number of projects which are not easily financed on credit, such as urban renewal or health and educational facilities, or for which foreign private capital is available, such as certain industrial projects. Although the Government can be expected to attempt to sustain its position in these fields through the use of foreign government assistance, including Soviet Bloc aid, it would appear that the receptivity to productive foreign private investment should tend to grow.

The Government is expected to establish a National Import Corporation in the near future as a channel for supplying both consumer and capital goods to public and quasi-public entities, such as the cooperative movement. The Government also hopes that through this device it can gradually reduce the domination of the nation's import trade by foreign owned companies. This plan presents an obvious opportunity to American exporters who have not already established channels of distribution in Ghana.

Despite Ghana's persistently adverse balance of payments (₵626.6 million in 1960), there is no evidence that quantitative import restrictions are to be introduced. The President announced on July 4, however, the introduction of exchange controls on transactions within the sterling area thus bringing this area under the same level of control as applied to the dollar and other currency zones.

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Final agreement on the Volta Project is hoped to trigger several new private investment projects which have been in suspension pending the outcome of the Volta negotiations. The implication of confidence in the Ghana situation on the part of the financing entities and the smelter consortium which a firm commitment would carry, plus the promise of relatively cheap power, are the stimuli expected to encourage these new investors.

III. Agriculture and Fisheries

The 1960-61 main crop of cocoa is unofficially estimated at 420,387 tons and the mid-crop now being harvested at 15,000 tons. The fact that the mid-crop is expected to be just over half of the average of the past two years is attributed primarily to unseasonably dry weather in the early spring. Weather affecting the forthcoming main crop has also apparently been unfavorable, and trade sources are currently estimating the crop at about 300,000 tons.

The Government has ordered 1,000 farm tractors from five West European suppliers, including the British subsidiary of International Harvester. Implements are expected to be ordered from the same five suppliers. Due to the problem of training operators and of studying how these tractors can be effectively used on the new cooperative and state farms, no further Government procurement of agricultural tractors is anticipated in the near future.

Unusually dry weather in the early spring damaged the plantain crop and caused food prices to soar briefly in Kumasi where plantains are a staple. With the help of prompt Government action in moving plantains from other areas, however, the situation was quickly restored to normal.

The Timber Marketing Board has assumed a monopoly over the export of all species of logs effective July 1. The Board is appointing exclusive sales agents to represent it in the various major overseas markets. The Board had already been exercising a monopoly over a single species (wawa) since October 15, 1960, and despite some disruption to the normal tempo of felling and shipping it succeeded in making a substantial profit on this operation so far.

The Government signed an agreement on June 13 with the Soviet Union for the construction of 13 fishery industries in Ghana as a part of the Soviet technical assistance program. Some weeks earlier, the Government had signed a contract for the purchase from a British firm of four large purse-seiners and two trawlers which will be operated with the advice and assistance of Star Kist International of Terminal Island, California. Also, Ghana Cold Stores Ltd., a consortium of West European firms with Ghana Government participation, has announced the completion of a $6470,000 cold storage plant at Tema to serve the fishing industry at what is to become Ghana's number one fishery center. It is not clear how the Soviet projects will tie in with these Western activities.

IV. Minerals Industry

According to trade sources there has been some decline in manganese, diamond and bauxite production so far this year, but a continued high level of gold output

Gold production from January through May, 1961, totaled 359,050 fine ounces, compared with 370,916 fine ounces during the same period in the record year of 1960, despite temporary interruptions in work at the five gold mines acquired by the Ghana Government in March of this year.

Production of diamonds by the African miners, who normally account for about half of the total, has declined noticeably this year, possibly due to the early spring drought. The major diamond companies appear to be withholding some of their production from the Accra market for unexplained reasons. Since all local diamonds must eventually pass through this market, the sudden appearance of these diamonds on the market at a later date could cause a temporary price decline.

Although a specific project agreement has not yet been signed, the Soviet Union is expected to carry out a complete geophysical survey of Ghana as one of the projects under the Soviet/Ghana Technical Assistance Agreement of August 4, 1960. In the meantime, an aerial magnetometer survey of two strips in Southern Ghana, partially financed by the IDA, has been completed and its results are being evaluated.

The Geological Survey Department is studying the economic potential of several beryl deposits which have recently been discovered.

Polish and Russian geologists have completed surveys of the low grade iron ore deposits near Shiani in northeastern Ghana, but results have not been announced. The Russians are considering the feasibility of establishing either a steel mill or a ferro-manganese plant in Ghana, based on this deposit, as a part of the Soviet technical assistance program.

V. Manufacturing

The President announced on July 4 that a total of 64 industries have been established in Ghana or were in an advanced stage of planning during the past twelve months. Actually most of these are in the planning stage, including a petroleum refinery, a textile printing mill, a sugar refinery, a cocoa bag factory, a flour mill, a garment factory, a cement industry, and a radio assembly plant, as well as a variety of small industries to be designed and equipped by entities in Czechoslovakia, Poland, Hungary and East Germany.

The Industrial Cooperative Society (INDUSCO) was merged with the Government's Industrial Development Corporation (IDC) on June 1 and has become a section of the IDC aimed at the establishment of rural industries. The IDC itself is undergoing a general reorganization of its senior personnel but is expected to embark on several new projects soon. The new IDC paint factory went into production late in the quarter. The IDC report for the year ended June 30, 1960, showed that of the 15 IDC subsidiaries actually in operation as of March 31, 1960, only five had made a net profit. Two of these were service, rather than manufacturing, industries.

A Government spokesman announced on June 29 that the IDC hotels subsidiary will build eight 2[illegible]bedroom hotels in various parts [illegible] the country at an average

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cost of ¢G151,000. Larger IDC hotels in Kumasi and Takoradi are already under construction. Several private proposals for a large new hotel in Accra are being considered by the Government but no decision has apparently been made as yet.

The status of the Volta River power-aluminum project is discussed earlier in this report. The Government has also signed an agreement with the Czechs for the survey, design and possible construction of four 20 mw hydro-power projects on smaller rivers in Southern Ghana and the Soviet Technical Assistance Agreement calls for the Russians to survey, design and possibly build a 200 mw hydro-power project on the Upper Volta at Bui. It is not clear how the power from these Czech and Soviet projects would be sold, since the Akosombo project on the Volta River would provide a surplus of power for several years to come.

VI. Domestic Trade

The effect on the economy of an increase of 14% in the income of cocoa farmers during 1960 (due to the record crop) and an increase of 22% in the nation's total wage bill (due largely to the higher minimum wage) is beginning to wear off as the usual summer slack season approaches. Retail sales, though higher than at this time last year, are definitely on the decline at present. Part of the sluggishness is due to the reluctance of the traders to buy textiles until the new import tariff rates are announced on July 7. It is generally assumed that the rates for most of the cheaper grades of cloth will be reduced since they were set at unrealistically high levels last year.1/ On the other hand there is some scare buying of luxuries in the main urban centers on the assumption that tariffs on these items will be increased.

The market is beginning to adjust to the general export ban imposed in mid-1960 against the neighboring country of Togo. The recent abolition of customs duties on imports from Ghana into Upper Volta (see Foreign Trade) may also help to take up the slack.

The index of retail prices in Accra continues to show great stability despite the rise in purchasing power earlier in the year. The index in April was 114 (1954 = 100) compared with 112 in April 1960. If it were not for the increase last year in import duties on textiles and the rise in the cost of services due to the general wage increase, the cost of living to the Ghanaian would probably have been lower this year than last.

The final draft of a new company law for Ghana was submitted to the Government on April 6. The draft embodies several interesting new concepts designed to encourage incorporation and foreign investment and at the same time to protect the general public. Several suggestions made by the U.S. Government and business community were incorporated in the final draft. A new insolvency law has also been drafted and is now under consideration.

A merger agreement has been concluded between the Ghanaian and European Chambers of Commerce and is now pending Government approval.

1/ As it happened, these duties were not reduced.

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VII. Foreign Trade and the Balance of Payments

Ghana's foreign trade through March continues the late 1960 trend toward an import balance. There was, in fact, a trade deficit of nearly ₤38 million during the first quarter of the year compared with a ₤31 million surplus in the same period of 1960. Imports from the U.S. appear to have shared in the general boom during the winter and spring.

Figures on the 1960 balance of payments, which have just become available, show a current account deficit of ₵626,558,000, well over double the deficit of the preceding year. The Government has not displayed any great alarm over this situation, however, and there is no talk of the reimposition of import restrictions. The prospects are for some decline in imports as the new tariffs come into effect and the reduced cocoa crop and new tax measures begin to absorb purchasing power and for an increased net inflow of foreign private capital due to new development projects and the imposition on July 4 of exchange controls against the sterling area. Thus there is a good possibility that the overall balance of payments deficit will be lower for 1961.

It is the declared policy of the Ghana Government to conclude bilateral trade agreements with the "socialist" countries and other friendly trading partners which are not adherents to the General Agreement on Tariffs and Trade. The agreements generally provide for most-favored-nation treatment, but are otherwise noncommittal as to a specific volume of trade in either direction. During the quarter, agreements on this pattern were signed with Poland and Hungary. A similar agreement was signed on July 5 with Guinea and negotiations are in progress with East Germany and Red China. So far, however, trade with the "socialist" countries has been less than 10% of Ghana's total foreign trade and is not expected to increase substantially.

Preparations are advancing for an ambitious US solo trade fair in Ghana in November and December of this year. The theme of the fair will be small industry development and there are good prospects for the sale to local investors of most of the equipment after the fair is over. Trade fairs are also being mounted over the next several months by Red China, Canada and Yugoslavia.

The Government announced an export embargo against South and South West Africa on June 16 and a complete embargo on all foreign trade with the Portuguese monetary zone on June 1 in protest against the racial policies of those countries. An export embargo against Togo and an import embargo against South Africa have been in effect since 1960. Since both South West Africa and Portugal have been major suppliers of canned fish to Ghana, their elimination from the local market should constitute a good opportunity for American exporters.

VIII. Finance

The continued stringency in the Government's fiscal position due to increased recurrent costs and heavy outlays on development, particularly in the field of transportation, has necessitated the introduction of new bond issues and revenue measures. In December 1960 the normal revolving float of 90 day Treasury

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bills was increased from ₵36 million to ₵60 million and on May 17 the Minister of Finance was authorized by Parliament to float a ₵24 million, 5-year, 5% domestic bond issue. It is understood that only half of this issue has been successfully floated and the balance was taken up by Ghana Government entities.

On July 4, a few days after the quarter ended, President Nkrumah announced a series of fiscal measures designed to raise an additional ₵31 million in new revenue in the 1962 fiscal year, thus enabling the Government to finance from current revenue the FY 1961 recurrent deficit of ₵16.5 million, increased recurrent costs in FY 1962 on the order of ₵9 million and the unfinanced portion of ₵15 million in local currency costs in the FY 1962 development budget. The foreign exchange costs of the development budget (i.e. ₵35 million) will be financed from the Government's sterling reserves and by borrowing. The new revenue measures announced by the President (which will presumably be enacted over the next few weeks) are as follows:

1. All companies and self-employed persons will be provisionally assessed for company tax purposes on the basis of 7-1/2% of their gross turnover. If the taxpayer feels that on the basis of net profit his tax should be lower than the presumptive figure, he must submit full documentation and in the case of foreign-owned companies, show that his local profit or loss is realistically computed. Even companies with a net loss, however, must pay at least 2% of their turnover. The basic company tax rate, which varies between 40% and 45% of net profits, remains unchanged and the tax concessions to pioneer industries are presumably unaffected.

2. The personal income tax structure has been simplified and the tax base reduced to ₵450 per annum. The actual tax rate is reduced but additional revenue is expected due to the simpler method of enforcement, including payment at the source.

3. Self-employed persons, including cocoa farmers, will be required to buy 10-year, 4% Government bonds for at least 10% of their taxable income. Wage earners will be forced to divert at least 5% of their income to these bonds.

4. There will be a tax on urban property for the first time (over and above the rates).

5. There will be a purchase tax on imported luxury goods.

6. There will be new or increased import and excise duties on certain items.

The President also announced on July 4 that effective the following day transactions with other parts of the Sterling Area would be subject to the same measure of control as applies to the rest of the world. This is designed among other things to prevent the disorderly flight of capital to the United Kingdom which has occurred on two or three occasions in recent months due to spurious rumors that the Ghana pound was to be devalued. The new controls do not affect transactions in U.S. dollars and do not abridge the rights of sterling area investors who have received guarantees from the Government as to the repatriation of earnings and capital.

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IX. Transportation and Utilities

At the request of the Minister of Transport and Communications, three West European suppliers of telecommunications equipment have submitted recommendations for a ten-year program of expansion and modernization of Ghana's telephone and telecommunications system. The Government is now studying these reports and will presumably work out a phased program for telecommunications development in the near future. The three companies involved will undoubtedly enjoy a preferred position in the supply of equipment but the possibility of some procurement from United States manufacturers is not precluded.

Ghana's new external broadcasting station went into operation in mid-June with programs in French, English, Hausa and Swahili. Programs in other languages will be inaugurated soon.

The Government is expected to invite bids very soon on the supply of three television transmission stations and ancillary facilities. In accordance with the recommendations of a team of experts from the Canadian Broadcasting System, the Ghana television network will use the CCIR Standard system, i.e. 625 lines at 50 fields per second. Some spot advertising will be allowed.

Ghana Airways has continued to expand during the quarter. Six of the eight Soviet Ilyushin 18's on order have been delivered, three Viscounts are expected this summer, a Soviet AN-12 freighter (probably to be used to fly fresh meat from Mali) has been ordered, two Boeing 707's are scheduled for delivery in early 1962 and three VC-10 long-range jets for delivery in 1963. Services have been inaugurated to Beirut via Cairo and to Khartoum and several other new routes are under consideration both within and outside Africa. In the meantime, an ICAO team has come to Ghana at the request of the Government to advise on what might be done to reduce Ghana Airways operating losses, which could reach $6 million in FY 1962.

Figures covering new automobile registrations through May show a total of 2,543, which is approximately the same rate of new registrations as in 1960. The leading makes were Opel, Volkswagen, Ford-Taunus, Peugeot and Morris in that order. The registration of trucks was also comparable to last year's rate, but the figures for tractors were substantially lower. Tractor registrations will, however, rise sharply later in the year when the first of the 1,000 farm tractors ordered by the Government (see "Agriculture" above) and the earthmoving equipment ordered by the Akosombo Dam contractor begin to arrive.

The new port of Tema, which has been in use for several months on a restricted basis, will be open to all traffic using six berths on or about October 1. The formal opening will take place in January when a full ten berths will be operational. It has not yet been finally determined whether the surfboat port of Accra will be closed in January or in April 1962.

An agreement was signed May 4 with a Yugoslav entity for the planning and design of a naval base at Sekondi, near Takoradi.

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X. Labor and Cooperatives

On April 8, President Nkrumah announced the abolition of the Ministry of Labour and Cooperatives. The old Labour Department has become the Labour Secretariat directly under the President and the staff of the Cooperative Department have been absorbed by the National Cooperative Council, a quasi-Governmental wing of the Convention People's Party. The various cooperative organizations have been placed under the appropriate ministries for operational planning purposes but will continue to look to the NCC for administrative and training support and for relations with cooperatives in other countries.

It was announced in mid-May that certain high-level Government technicians would be granted pay increases, presumably to encourage Ghanaians to train themselves in these fields and to discourage existing technicians from joining private enterprise. Otherwise, there were no significant changes during the quarter in the nation's wage structure.

The efforts of the Ghana Government and the Trades Union Congress to promote the development of the All-African Trade Union Federation reached a high pitch during a conference of African trade union leaders in Casablanca in early June. The attempt of the Ghanaian and certain other delegations to bar the membership of unions belonging to the ICFTU met with inconclusive and disputed results, however, and the fight on this point continues.

For the Ambassador:

John Q. Bledgett
Second Secretary of Embassy

Enclosure:

Table of Economic Indicators.

Department please pass to London, Paris, Dakar, Conakry, Monrovia, Freetown, Abidjan, Lomé, Lagos, Ouagadougou, Bamako and 35 copies for Amembassy ACCRA.

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TABLE OF ECONOMIC INDICATORS

Item	Period	Unit	1960	1961
Exports - total	Jan-Mar	£G1,000 1/	33,179	30,502
to U.S.	"	"	4,462	7,388
Imports - total	"	"	31,201	38,048
from U.S.	"	"	1,546	2,371
Cocoa bean exports	"	1000 long tons	90	98
Cement imports	"	" " "	128	127
Ocean cargo unloaded	"	" " "	480	530
Accra retail price index	January	June 1954 = 100	111	113
	February	"	111	112
	March	"	110	114
	April	"	112	114
	May	"	114	115
Clearing house volume	January	£G1,000 1/	15,387	18,850
	February	"	11,393	17,575
	March	"	10,686	20,640
	April	"	9,756	21,219
	May	"	11,652	18,228
Commercial bank loans outstanding to domestic customers	March 31, 1961		9,544	19,341
Notes and coins outstanding	As of 3/31/60		33,837	(No figures)
Registered unemployment	January		8,696	13,663
	February		9,472	18,053
	March		10,390	14,472
Electricity generated	Jan-Mar	1000 kw	30,571	31,461

1/ One Ghana pound (£G) equals about $2.80

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